

Message Text

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TO AMEMBASSY CANBERRA

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C O R R E C T E D C O P Y (OMISSION LINE 1, PARA 6 G))

E.O. 11652: N/A

TAGS: EFIN, AS

SUBJ: AMBASSADOR'S SPEECH ON LOCAL RESPONSIBILITY OF
MULTINATIONAL CORPORATIONS

REF: CANBERRA 5237

1. THE DEPARTMENT (EB) IS POUCHING SEVERAL PAPERS AND DOCUMENTS TO THE EMBASSY ON THE SUBJECT OF MULTINATIONAL CORPORATIONS (MNCS). THIS MATERIAL INCLUDES STATISTICS (PREVIOUSLY POUCHED) ON A SAMPLE OF US MNCS IN AUSTRALIA, THE SUBJECT OF A SPECIAL COMMERCE DEPT. COMPUTER RUN REQUESTED BY THE DEPARTMENT.

2. THE DEPARTMENT HAS PREVIOUSLY POUCHED A COPY OF THE TARIFF COMMISSION STUDY ON MNCS, PREPARED FOR THE SENATE
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HEARINGS, WHICH HAS SOME HELPFUL INFORMATION, IS ALSO

BEING POUCHED.

3. SEVERAL ACADEMIC SOURCES MAY BE USEFUL AS PERMANENT REFERENCE FOR THE EMBASSY. WE CITE RICHARD E. CAVES' FEBRUARY 1971 ARTICLE IN THE JOURNAL "ECONOMICA", AND THREE BOOKS -- "THE INTERNATIONAL CORPORATION," EDITED BY CHARLES P. KINDLEBERGER "SOVEREIGNTY AT BAY", BY RAYMOND VERNON, AND "AMERICAN BUSINESS ABROAD" BY KINDLEBERGER (LECTURE 4 PERTAINS TO AUSTRALIA).

4. WE ASSUME THAT THE AMBASSADOR MAY WISH TO NOTE THE SIZE AND VOLUME OF AMERICAN DIRECT INVESTMENT IN AUSTRALIA (BOOK VALUE OF OVER \$4 BILLION AT THE END OF 1972) AND THAT THIS INVESTMENT HAS BROUGHT UNDOUBTED BENEFITS TO AUSTRALIAN ECONOMY. RECENT TENDENCY BY AUSTRALIANS TO REEXAMINE FOREIGN INVESTMENT POLICY PRESUMABLY NOT BASED ON FAILURE OF FOREIGN INVESTORS TO BEHAVE RESPONSIBLY BUT RATHER DUE TO A REASSESSMENT OF RELATIVE ROLES TO BE PLAYED BY AUSTRALIANS AND FOREIGNERS IN FURTHER DEVELOPMENT OF AUSTRALIAN ECONOMY.

5. SINCE, AS WE UNDERSTAND, THE CONVENTION INCLUDES ALL AUSTRALASIA, WE SEE MERIT IN EXTENDING DISCUSSION TO COVER ALSO QUESTION OF LOCAL RESPONSIBILITIES OF MNC IN DEVELOPING COUNTRIES. THERE TOO, AMERICAN MULTINATIONAL FIRMS--AS WELL AS THOSE OF OTHER CAPITAL-EXPORTING COUNTRIES--HAVE GENERALLY BEEN MINDFUL OF THEIR RESPONSIBILITIES TOWARD HOST COUNTRIES. PROBLEMS HAVE BEEN ENCOUNTERED OCCASSIONALLY WHERE RELATIONSHIP BETWEEN FOREIGN INVESTORS AND HOST COUNTRY HAS EITHER NOT BEEN CLEARLY DEFINED OR WHERE IT HAS BEEN CAUGHT UP IN OTHER MAJOR POLICY QUESTIONS.

6. AMBASSADOR MAY ALSO WISH TO DRAW ON THE FOLLOWING TALKING POINTS:

A) ALTHOUGH MNC BECAUSE OF NATURE AND SCOPE OF ITS WORLDWIDE OPERATIONS MAY BE DENOMINATED "MULTINATIONAL", IT STILL CARRIES THE NATIONALITY AND IMAGE OF ITS PARENT COUNTRY. HOWEVER, MUCH IT MAY ACT AS A GOOD UNCLASSIFIED

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CITIZEN, AND BE APPRECIATED FOR ITS EFFORTS, BASIC IDENTIFICATION AS FOREIGN INSTITUTION LIKELY TO REMAIN, THIS ENTAILS A SPECIAL AWARENESS ON ITS PART, AND STANDARDS OF CONDUCT IN THE COUNTRY IN WHICH IT IS A GUEST.

B) GOOD CITIZENSHIP FOR MNC, SOMETIMES CALLED SOCIAL RESPONSIBILITY, IMPLIES MORE THAN A SERIES OF

INDIVIDUAL COMMUNITY PROJECTS. HOUSING AND SCHOOL FACILITIES FOR EMPLOYEES AND FAMILIES, TUTORIAL REFUNDS FOR AFTER-HOUR TRAINING, CONTRIBUTIONS TO LOCAL HEALTH AND EDUCATIONAL INSTITUTIONS, ARE OFTEN NECESSARY AND USUALLY PROPER. THEY CAN, HOWEVER, BE DISMISSED AS ROUTINE PR ACTIVITY IF STYLE OF MNC MANAGEMENT DOES NOT AT THE SAME TIME EMBODY SUFFICIENT AWARENESS OF LOCAL GOALS AND SENSITIVITIES,

C) GOOD CITIZENSHIP AS A MINIMUM DEMANDS COMPLIANCE WITH LOCAL LAWS AND REGULATIONS.

BEYOND THAT, THE WORLD TENDS TO EXPECT COMPANIES BASED IN THE DEVELOPED COUNTRIES TO PAY HIGH WAGES, TO ENFORCE HIGH SAFETY AND WELFARE STANDARDS, AND TO BE RECEPTIVE TO LOCAL LABOR PRACTICES. IF A SUBSIDIARY IN A FOREIGN COUNTRY DOES NOT MEET AT LEAST THE HIGHER AVERAGE LEVEL OF LOCAL FIRMS IN THESE RESPECTS, IT MAY DISAPPOINT LOCAL EXPECTATIONS. ON THE OTHER HAND, IF AN MNC GOES TOO FAR BEYOND WHAT ARE CONSIDERED ACCEPTABLE LOCAL STANDARDS, AND GIVEN THE MANY COMPETITIVE ADVANTAGES WHICH IT ALREADY ENJOYS (ACCESS TO CAPITAL MARKETS ETC.), LOCAL ENTREPRENEURS MAY COMPLAIN OF UNFAIR COMPETITION.

D) MNC MUST ALSO TAKE ACCOUNT OF LOCAL REQUIREMENTS AND DESIRES IN DETERMINING THE FORM OF THEIR INVESTMENT, FOR EXAMPLE JOINT VENTURES, INDIRECT FINANCING THROUGH BODIES SUCH AS PICA (PRIVATE INVESTMENT COMPANY FOR ASIA), OR MANAGEMENT/MARKETING CONTRACTS, MAY BE MORE ACCEPTABLE IN SOME COUNTRIES THAN THE TRADITIONAL WHOLLY-OWNED MNC AFFILIATES. ALSO, WHERE TECHNICALLY POSSIBLE, LOCAL NEEDS AND GOALS

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SHOULD BE CONSIDERED IN THE MNC'S CHOICE OF TECHNOLOGY.

E) THE MNC SHOULD BEAR IN MIND THAT FOREIGN INVESTMENT OFTEN INTRODUCES UNEXPECTED CHANGE IN EMPLOYMENT AND DEMAND, NEW WAYS OF WORKING AND DOING BUSINESS, AND COMPETITION WITH LOCAL ENTREPRENEURS. DECISIONS ARE MADE ON A WORLD-WIDE BASIS, WHICH MAY NOT ALWAYS COMPORT WITH HOST GOVERNMENT POLICIES. IT IS IMPORTANT TO ANTICIPATE PROBLEMS BEFORE THEY ARISE.

F) FOR THEIR PART, HOST GOVERNMENTS MUST BEAR IN MIND THAT INVESTMENT DECISIONS WILL BE BASED ON BUSINESS CRITERIA, INCLUDING THE QUESTION OF COSTS. IF THE COST OF WHAT IS TERMED "LOCAL RESPONSIBILITY

IS JUDGED TOO HIGH .THE INVESTMENT MAY WELL NOT BE
UNDERTAKEN. CONSISTENCY AND STABILITY IN DRAWING UP AND
ADMINISTERING THE "RULES OF THE GAME" FOR FOREIGN
INVESTORS IS ALSO EXTREMELY IMPORTANT.

G) HOME COUNTRY GOVERNMENTS CANNOT, OF COURSE, TAKE
BUSINESS DECISIONS WHICH ONLY CORPORATIONS CAN TAKE, BUT
THEY DO HAVE THE RESPONSIBILITY TO OBSERVE, WARN; AND IF
NECESSARY, USE GOOD OFFICES WITH ALL PARTIES TO EASE
FRICTIONS AND AVOID DISPUTES. RUSH

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